LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS
200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 6606 | **NOTE PREPARED:** Dec 3, 2003
BILL NUMBER: HB 1005 | **BILL AMENDED:**

SUBJECT: Property Tax Benefits and Study Commission.

FIRST AUTHOR: Rep. Reske | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: With respect to a residential real property financing or refinancing, this bill requires a financial institution to provide to each customer information on property tax deductions and the homestead credit on a form prescribed by the Department of Local Government Finance (DLGF). The bill imposes a penalty on a financial institution that does not comply. It provides for additional information about property taxes to be provided with the property tax statement of current and delinquent taxes and special assessments. This bill also provides for state reimbursement of the expenditures made by a county to provide the additional information. It also establishes the Local Government Finance Study Commission.

Effective Date: Upon passage; July 1, 2004.

Explanation of State Expenditures:

Providing Information on Property Tax Benefits. Before June 30, 2004, the DLGF must prescribe the form to be provided by financial institutions to customers. This provision should have no significant impact on the DLGF.

The Department of Financial Institutions must examine financial institutions to determine compliance and to impose and collect penalties. This provision will increase administrative expenses for the Department; however, the impact is not expected to be significant.

As a result of the proposal, the state could experience an increase in the number of homeowners who apply for and receive property tax deductions and the homestead credit.

Estimation Issues Pertaining to Providing Information on Property Tax Benefits. Based on available 2003 county abstract data and 2003 property tax parcel record data compared with Census estimates for owner-occupied housing, it was estimated that as many as 6.9%, or 116,000 homeowners, may not have filed for the homestead credit. The resulting additional homestead credit for CY 2004, if all 116,000 homeowners file for the credit, is estimated at $15.7 M. (Note: These estimates were based on data from a small number of counties and is subject to change as more data is received.) The additional expense by fiscal year is estimated at $5.2 M in FY 2004 and $10.5 M in FY 2005. **However, this bill only applies to those financing or refinancing real property.**

With respect to financing real property, the DLGF reported receiving on average about 200,000 sales disclosure forms annually. If the same percentage of homeowners who currently do not file for the homestead credit–or 6.9%–apply for the credit because of the provisions of this bill, approximately 13,800 additional homeowners would apply for the credit. Due to the current reassessment, the average residential property tax bill is unknown at this time. However, as an example, if the average property tax bill were $1,000 before the 20% homestead credit, the state would pay an additional $200 per homeowner. The total impact of this provision will be dependent on the residential property tax bills of those individuals who would not have applied for the homestead credit "but for" the assistance of the financial institution. With respect to the additional state expenditure that would result from refinancing, the fiscal impact is indeterminable.

Homestead credits are paid from the Property Tax Replacement Fund, which is annually supplemented by the state General Fund. Any additional homestead credit expenditures would ultimately come from the General Fund.

Required Information on Property Tax Bills. The DLGF must provide an explanation of certain property tax information and appeal procedures to each county treasurer so that the county treasurer can forward the information to taxpayers. (See *Explanation of Local Expenditures*.) This provision should have no fiscal impact on the DLGF.

The Treasurer of State, on warrant of the Auditor of State, must pay costs that a county incurs for computer programming or printing costs directly related to mailing the required information if the county submits a statement of the costs to the DLGF for reimbursement from the state. The impact of this provision is indeterminable and dependent on the costs incurred for these expenses. (See *Explanation of Local Expenditures*.)

Local Government Finance Study Commission.. The Commission would be given a budget of approximately $15,000, based on Legislative Resolution 03-02. This amount could vary per interim depending on future Legislative Council resolutions. The Commission will have a total of 20 members and is charged with conducting a study of ways to replace ad valorem property taxes as a local government funding source. It will consist of 8 legislative members with 12 advisors. The Commission would expire December 31, 2005.

The Commission budget would be paid from funds appropriated to the Legislative Council from the state General Fund to pay for per diem and travel expenses. The Legislative Services Agency (LSA) will staff the Commission. LSA should be able to absorb any additional expenses associated with this provision given its current budget.

<u>Explanation of State Revenues:</u>

Providing Information on Property Tax Benefits. The state levies a small tax rate for State Fair and State

Forestry. Any reduction in the assessed value base resulting from an increase in property tax deduction applications will reduce the property tax revenue for these two funds.

A financial institution is subject to a civil penalty of $50 for each instance in which the financial institution fails to comply with the requirement to provide information on property tax deductions and homestead credits. The number of times a financial institution will fail to offer the required assistance is indeterminable. Penalties would be deposited into the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Providing Information on Property Tax Benefits. Ten counties currently provide a locally funded homestead credit. These counties include Allen, Madison, Marion, Miami, Monroe, Perry, St. Joseph, Spencer, Tippecanoe, and Vanderburgh. If additional taxpayers in these 10 counties receive the state homestead credit as a result of this bill, they will also receive the local homestead credit.

The local homestead credit is paid for with County Option Income Tax (COIT) proceeds. The amount of COIT revenue available for distribution to local civil taxing units would be reduced by the amount spent for additional local homestead credits.

Required Information on Property Tax Bills. Regardless of whether a county treasurer transmits a statement of current and delinquent taxes and special assessments to a person liable for property taxes or to a mortgagee for taxes first due and payable after December 31, 2004, the county treasurer must mail certain information about property taxes to each taxpayer. The information must include a breakdown of the total property tax and special assessment liability and the percentage of the taxpayer's liability that will be distributed to each taxing unit in the county; a comparison showing any change in assessed valuation from the previous year; a comparison showing any change in the property tax and special assessment liability from the previous year; the change in the amount of property taxes and special assessments imposed by each taxing unit; an explanation of and filing deadlines for the homestead credit and all property tax deductions; and the procedure that a taxpayer must follow to appeal an assessment or petition for the correction of an error. The DLGF must provide to the county an explanation to be sent to taxpayers about credits, deductions, filing deadlines, appeal procedures, and petitions for correction of errors.

Counties send an estimated 3.0 M to 3.4 M tax statements annually. Some counties may be able to include the additional information on tax statements that are currently mailed. Some counties may be able to include an additional sheet of information with the current tax bill. Many counties may already be sending tax information to both the mortgage company and the taxpayer. However, because an estimated 50% of statements are sent only to mortgage companies, an unknown number of counties may incur additional costs associated with an additional mailing in cases where the tax statement is currently sent only to the mortgage company.

The impact of this proposal is indeterminable, will vary by county, and will depend on current local practices. However, most counties are likely to incur additional printing costs and/or costs associated with computer programming changes. Some counties may also incur additional costs associated with postage. Counties that incur printing or computer programming costs directly related to mailing the required information must submit an itemized statement of the costs to the DLGF in order to obtain reimbursement for costs from the state. County claims must be paid by the Treasurer of State on warrant of the Auditor of State.

Explanation of Local Revenues:

Providing Information on Property Tax Benefits. The property tax deductions that would be available under this proposal include the mortgage, aged, blind/disabled, and veterans deductions. The $35,000 standard deduction is also included and is automatic when the homeowner receives the homestead credit. Additional deductions reduce the assessed value tax base. This causes a shift of the property tax burden from the taxpayers receiving the deductions to all taxpayers in the form of an increased tax rate. Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

State Agencies Affected: Legislative Services Agency, Department of Local Government Finance, Treasurer of State, Auditor of State, and the Department of Financial Institutions.

Local Agencies Affected: Taxing units in counties providing local homestead credits.

Information Sources: 2002 and 2003 County Auditors' Abstracts; County property tax parcel record data; Census Bureau; Local Government Database; Nancy Stassen, Director, Operations Division, DLGF; Dave Bottorff, Legislative Director, Association of Indiana Counties, 317-684-3710; Legislative Council Resolution 03-02.

Fiscal Analyst: Bernadette Bartlett, 317-232-9586.